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State's college tuition plan faces tough times

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PACT Trust Fund loses \$100M in last quarter of '08

Families who socked away money in Alabama's prepaid college tuition program face an uncertain - and unguaranteed - return on their investment.

Directors of the prepaid program are trying to determine how to maintain tuition payments despite losing \$100 million in investments during the last three months of 2008, said Dr. Gregory Fitch, executive director of the Alabama Commission on Higher Education.

Alabama's prepaid program, called the PACT Trust Fund, allows families to pay for college tuition at discounted rates years ahead of a child's graduation from high school. About 48,000 families participate.

"For the past 18 years, they have been able to handle all the requests" for tuition payments, said Fitch, who also serves on the PACT board of directors by virtue of his position with ACHE.

The PACT program, said Fitch, ran into three overlapping obstacles last year: Stock investments plummeted, a record number of participating students entered college, and tuition and fees grew more than projected.

"In looking historically at it, we have gone through ups and downs," he said. "However, this one is so dramatic that all the variables coming together now will challenge the board to find solutions."

The fund held a market value of \$484 million as of the last day of December 2008. That was down about 40 percent from December 2007, when the fund ended the year worth \$793 million.

Fitch said about 12,500 students are currently withdrawing tuition.

"There is no guarantee on this," said Fitch. "This is not an Alabama government program. It was created by the Legislature with the intent to provide support for Alabamians seeking to attend colleges. But it's a separate entity on its own."

Fitch said the prepaid program sold the most contracts in the early years of the fund from 1993 to 1996. Many of those children are now in college and have increased demand for tuition payments. He said demand could fall again after 2010.

Fitch also said colleges have increased tuition more than expected in the last year, while adding technology fees that didn't exist years ago.

But by far the most dramatic factor, said Fitch, was the downturn in the stock market. Fund managers had projected an annual increase of 9 percent in investments. But Fitch projects the fund could lose another 25 percent, or more than \$100 million, this year. When asked if the program could collapse, Fitch answered: "We need to see what's going to happen."

He said the fund's directors are meeting with finance officers from Auburn University and the University of Alabama to discuss possible ways to handle tuition payments. "There are a number of very concerned people working on this," he said.

Representatives at Auburn and Alabama did not return calls for comment.

According to fund documents, individual investments are not insured. "Participating in PACT entails risk of return," reads the 2008 disclosure statement. And the 1990 state law that set up the fund says that a PACT contract "does not constitute a debt or obligation of the state."

The Alabama treasurer's office administers the PACT program, which stands for Prepaid Affordable College Tuition program. State Treasurer Kay Ivey mailed 48,000 letters on Feb. 27 stating that the market drop has "had a significant negative impact" on PACT, but that the fund has maintained timely tuition payments.

The letter advises participants to check www.8000alapact.com for updates.

PACT allows parents to pay for college, via lump sum or monthly installments, many years ahead of a child's high school graduation. Last year, the parent of a newborn could have paid \$23,938 for 128 semester hours in Alabama. (Participants may attend private or out-of-state schools based on average in-state tuition.)

The state also enables college savings through the Alabama Higher Education 529 Fund. Investors contribute to an individual account within that fund, choose from several investment options and later make tax-free withdrawals for college expenses.

That fund has also been hurt, said Ivey, but not as badly. The 529 Fund finished last year with \$527 million, down 24 percent from December 2007.

"Has it been hit? Yes, it has," said Ivey. "But so has every other savings plan."

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